

CAPITAL AREA TRANSIT SYSTEM**DECEMBER 31, 2005 AND 2004****BATON ROUGE, LOUISIANA**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8-9-06

CONTENTS

Audited Financial Statements:

Independent Auditor's Report.....	Page 1 - 2
Management's Discussion and Analysis.....	3 - 6
Balance Sheets - Proprietary Fund.....	7
Statements of Revenues, Expenses, and Changes in Net Assets - Proprietary Fund.....	8
Statements of Cash Flows - Proprietary Fund.....	9 - 10
Statements of Plan Net Assets - Pension Trust Fund.....	11
Statements of Changes in Plan Net Assets - Pension Trust Fund.....	12
Notes to the Financial Statements.....	13 - 25
Required Supplementary Information Under GASB Statement No. 25.....	26 - 27



Hannis T. Bourgeois, LLP

Certified Public Accountants

Randy J. Bonneau, CPA*
Joseph D. Richard, Jr., CPA*
Ronnie E. Stamper, CPA*
Fernand P. Genre, CPA*
Stephen M. Huggins, CPA*
Monica L. Zumo, CPA*
Ronald L. Gagnier, CPA*
Douglas J. Nelson, CPA*
Celeste D. Viator, CPA*
Russell J. Resweber, CPA*
Laura E. Monroe, CPA*
R. David Wascum, CPA*

*A Professional Accounting Corporation

2322 Tremont Drive
Baton Rouge, LA 70809
Phone: (225) 928-4770
Fax: (225) 926-0945

*Members American Institute of
Certified Public Accountants*

1175 Del Este Avenue, Suite B
Denham Springs, LA 70726

www.htbcpa.com

May 12, 2006

Independent Auditor's Report

To the Board of Directors
Capital Area Transit System
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Capital Area Transit System (the "System"), a component unit of the City of Baton Rouge - Parish of East Baton Rouge, and the Capital Area Transit System's Employees' Pension Trust Fund (a fiduciary fund of the System) as of December 31, 2005, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the System and its fiduciary fund as of and for the year ended December 31, 2004, were audited by the other auditors whose report dated May 16, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System and its fiduciary fund as of December 31, 2005, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the System will continue as a going concern. As shown in the financial statements, the System incurred net losses before capital contributions of \$1,243,164 and \$1,234,314 for 2005 and 2004, respectively, and has a deficit balance in unrestricted net assets of \$511,817 and \$948,143 (as restated), as of December 31, 2005 and 2004, respectively. Current liabilities exceed current assets by \$900,633 and \$1,317,839 at December 31,

2005 and 2004. Those conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2006 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 and the Pension Trend Information in schedule 1 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Hannis T. Bourgeois, LLP

CAPITAL AREA TRANSIT SYSTEM
Management's Discussion and Analysis
Year ended December 31, 2005

This section of the System's annual financial report presents a discussion and analysis of the System's financial performance during the fiscal year ended December 31, 2005. Please read this section in conjunction with the System's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The System's net assets are \$4,496,461 as of December 31, 2005, representing an increase of \$749,471 or 20.00% from that of December 31, 2004. A substantial portion of the net assets are invested in capital assets.
- A deficit in unrestricted net assets exists which signifies that obligations exceed resources to satisfy those obligations as of December 31, 2005.
- Net losses before capital contributions were \$1,243,164 and \$1,234,314 for 2005 and 2004, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and required supplementary information.

The financial statements provide both long-term and short-term information about the System's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements required by GASB 25. The System maintains two different funds: a proprietary fund and a fiduciary fund.

The System is a component unit of the City of Baton Rouge - Parish of East Baton Rouge (City-Parish).

Proprietary Fund. The System has one type of proprietary fund, an enterprise fund, which is used to report the same functions presented as business-type activities; for the System, the fund accounts for all transit activity. The basic proprietary fund statements can be found on pages 7 through 10 of this report.

The System's proprietary fund financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the System are included in the Statement of Net Assets.

The Statement of Net Assets reports the System's net assets. Net assets, which are the difference between the System's assets and liabilities, are one way to measure the System's financial health or position. The net assets are classified into three categories: invested in capital assets, restricted, and unrestricted.

CAPITAL AREA TRANSIT SYSTEM
Management's Discussion and Analysis
Year ended December 31, 2005

Fiduciary Fund. The System has one type of fiduciary fund, a pension trust fund, which is used to account for resources, held for the benefit of parties outside the government. The fiduciary fund assets are not available to finance transit operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund statements can be found on pages 11 through 12 of this report.

FINANCIAL ANALYSIS OF THE SYSTEM:

Net Assets

The System's total net assets at December 31, 2005 increased from \$3,746,990 to \$4,496,461. Table A-1 summarizes the System's net assets as of December 31, 2005.

Although current assets have increased, the System is still experiencing an ongoing "tight" cash position. Restricted assets represent resources contractually restricted, primarily related to matching funds to be used for federally funded activities. The System does not own land and buildings; rather, the City-Parish provides the System with the use of its administrative building and terminal facility.

Long-term liabilities decreased from \$8,863,922 to \$8,323,848 as a result of current year payments for the capital lease obligations entered into during 2004 for the upgrade to the bus fleet. Future federal grants are anticipated as the funding source for these leases. Management believes that the System's operations will generate adequate cash flow for the 2006 fiscal year as a result of a fare increase in January 2006 from \$1.25 to \$1.75.

Table A-1
Capital Area Transit System's Net Assets
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Current unrestricted assets	\$ 1,590,564	\$ 920,400
Restricted current assets	114,563	251,688
Total current assets	1,705,127	1,172,088
Equipment, net	12,289,038	12,508,579
Net pension assets, long term	1,317,341	1,168,484
	<u>\$ 15,311,506</u>	<u>\$ 14,849,151</u>
Liabilities and Net Assets		
Current	\$ 2,491,197	\$ 2,238,239
Long term claims payable and related liabilities	1,133,880	1,099,112
Long term other liabilities	7,189,968	7,764,810
	10,815,045	11,102,161
Net Assets - Invested in Capital Assets	4,895,447	4,591,025
Net Assets - Restricted	112,831	104,108
Net Assets - Unrestricted	(511,817)	(948,143)
Total Net Assets	<u>4,496,461</u>	<u>3,746,990</u>
	<u>\$ 15,311,506</u>	<u>\$ 14,849,151</u>

CAPITAL AREA TRANSIT SYSTEM
Management's Discussion and Analysis
Year ended December 31, 2005

Changes In Net Assets

The System's operating revenues increased slightly from the prior year amount of \$3,624,865 to \$3,953,088 or 9.05%. This increase is primarily attributable to a slight increase in revenues generated from the contracts with Louisiana State University and Southern University. The System also experienced an increase in ridership as a result of Hurricanes Katrina and Rita. Many residents of the hardest hit areas relocated to Baton Rouge and began to use the services of the System.

Operating expenses increased by \$2,015,383 or 15.97% to \$14,637,506. Personal services, supplies, fuel, interest expense, and depreciation were all areas of increased costs.

Net non-operating revenues in 2005 increased as a result of increases in federal operating grant revenue and an increase in funding from the City-Parish of East Baton Rouge.

Capital contributions increased from 2004 to 2005 due to an increase in cash purchases of equipment charged to federal grants.

Table A-2
Capital Area Transit System's Changes in Net Assets
Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Charges for services	\$ 3,919,406	\$ 3,549,894
Other	33,682	74,971
Total operating revenues	<u>3,953,088</u>	<u>3,624,865</u>
Direct operating expenses:		
Operating expenses	12,974,319	11,867,329
Depreciation expense	1,663,187	754,794
Total direct operating expenses	<u>14,637,506</u>	<u>12,622,123</u>
Loss from operations	<u>(10,684,418)</u>	<u>(8,997,258)</u>
Nonoperating revenues, net:		
Interest Income	3,949	355
Interest Expense	(373,968)	-
Government operating grants	5,476,457	4,422,576
Hotel/motel tax	937,597	788,776
Other revenue	317,489	320,435
Loss on Disposal of Fixed Assets	(45,480)	(9,408)
Operating transfers from City-Parish Government	3,125,210	2,240,210
Total nonoperating revenues	<u>9,441,254</u>	<u>7,762,944</u>
Net loss before capital contributions	<u>(1,243,164)</u>	<u>(1,234,314)</u>
Capital contributions	<u>1,992,635</u>	<u>617,502</u>
Net income (loss) after capital contributions	749,471	(616,812)
Net assets, beginning of year	<u>3,746,990</u>	<u>4,363,802</u>
Net assets, end of year	<u>\$ 4,496,461</u>	<u>\$ 3,746,990</u>

**CAPITAL AREA TRANSIT SYSTEM
Management's Discussion and Analysis
Year ended December 31, 2005**

FINANCIAL OUTLOOK

The 2006 budget anticipates an increase in passenger fares and contract revenue, while federal grant revenues, taxes, and transfers from the City-Parish will remain constant. The System plans to maintain a careful watch over expenditures to help alleviate some of the expenses attributable to transit operations, such as rising fuel costs and maintenance of vehicles. Overall, the System is budgeted to operate at a break-even position.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide the community, the Council of the City-Parish, and other interested parties with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the System at (225) 389-8920.

DECEMBER 31, 2005 AND 2004

	2005	2004
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 3,799	\$ 19,808
Accounts Receivable	81,158	47,874
Due from Other Governments	1,256,470	494,559
Inventory	235,222	354,667
Prepaid Expenses and Other Assets	13,915	3,492
Total Current Assets	1,590,564	920,400
Restricted Assets:		
Cash and Cash Equivalents	114,563	251,688
Total Restricted Assets	114,563	251,688
Net Pension Asset, Long-Term Equipment, Net	1,317,341 12,289,038	1,168,484 12,508,579
Total Assets	\$ 15,311,506	\$ 14,849,151

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 1,121,722	\$ 1,033,589
Excess Outstanding Checks Over Bank Balance	154,104	-
Accrued Compensated Absences	230,778	325,309
Deferred Revenue	275,907	239,597
Claims Payable and Related Liabilities	158,895	115,780
Capital Lease Payable	549,791	523,964
Total Current Liabilities	<u>2,491,197</u>	<u>2,238,239</u>
Long-Term Liabilities:		
Accrued Compensated Absences, Less Current Portion	346,168	290,114
Deferred Revenue, Less Current Portion	-	81,106
Claims Payable and Related Liabilities, Less Current Portion	1,133,880	1,099,112
Capital Lease Payable, Less Current Portion	6,843,800	7,393,590
Total Long-Term Liabilities	<u>8,323,848</u>	<u>8,863,922</u>
Total Liabilities	<u>10,815,045</u>	<u>11,102,161</u>
Net Assets:		
Investment in Capital Assets, Net of Related Debt	4,895,447	4,591,025
Restricted	112,831	104,108
Unrestricted	(511,817)	(948,143)
Total Net Assets	<u>4,496,461</u>	<u>3,746,990</u>
Total Liabilities and Net Assets	<u><u>\$ 15,311,506</u></u>	<u><u>\$ 14,849,151</u></u>

CAPITAL AREA TRANSIT SYSTEM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUND

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Operating Revenues:		
Charges for Services	\$ 3,919,406	\$ 3,549,894
Advertising Revenue	33,682	74,971
Total Operating Revenues	3,953,088	3,624,865
Direct Operating Expenses:		
Personal Services and Fringe Benefits	7,487,201	7,072,858
Supplies, Fuel and Other Bus Related Expenses	2,224,352	1,856,991
Contractual Services & Liability Costs	3,262,766	2,937,480
Depreciation	1,663,187	754,794
Total Direct Operating Expenses	14,637,506	12,622,123
Loss from Operations	(10,684,418)	(8,997,258)
Nonoperating Revenues (Expenses):		
Interest Income	3,949	355
Interest Expense	(373,968)	-
Government Operating Grants:		
Federal Operating Subsidy	5,254,900	4,269,915
Planning and Technical Study Grants	221,557	152,661
Hotel/Motel Tax	937,597	788,776
Loss on Disposal of Fixed Assets	(45,480)	(9,408)
Other Revenue	317,489	320,435
Operating Transfers from Primary Government	3,125,210	2,240,210
Total Nonoperating Revenues (Expenses)	9,441,254	7,762,944
Loss Before Capital Contributions	(1,243,164)	(1,234,314)
Capital Contributions	1,992,635	617,502
Net Income (Loss) after Capital Contributions	749,471	(616,812)
Net Assets, Beginning of Year, as Restated	3,746,990	4,363,802
Net Assets, End of Year	\$ 4,496,461	\$ 3,746,990

The accompanying notes are an integral part of these financial statements.

CAPITAL AREA TRANSIT SYSTEM

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 3,899,449	\$ 3,549,894
Cash Received from Other Sources	33,682	74,045
Cash Paid to Suppliers and Others	(4,943,749)	(4,749,020)
Cash Paid to Employees for Compensation and Related Expenses	(7,783,446)	(6,616,779)
Net Cash Used in Operating Activities:	(8,794,064)	(7,741,860)
Cash Flows from Noncapital Financing Activities:		
Operating Subsidies Received from Other Governments	4,613,127	3,669,473
Hotel-Motel Tax	980,892	917,123
Other Revenue	306,858	311,027
Operating Transfers Primary Government	3,125,210	2,240,210
Net Cash Provided by Noncapital Financing Activities	9,026,087	7,137,833
Cash Flows from Capital and Related Financing Activities:		
Capital Contributions Received	1,992,635	617,502
Proceeds from Sale of Capital Assets	25,043	-
Payments on Capital Leases	(523,963)	-
Acquisition and Construction of Capital Assets	(1,514,169)	(801,402)
Interest Paid on Capital Debt	(368,652)	-
Net Cash Used in Capital Financing Activities	(389,106)	(183,900)
Cash Flows from Investing Activities:		
Interest Received	3,949	355
Net Cash Provided by Investing Activities	3,949	355
Net Decrease in Cash and Cash Equivalents	(153,134)	(787,572)
Cash and Cash Equivalents at Beginning of Year	271,496	1,059,068
Cash and Cash Equivalents at End of Year	\$ 118,362	\$ 271,496
Reconciliation of Cash as Listed on the Balance Sheet:		
Unrestricted Cash	\$ 3,799	\$ 19,808
Restricted Cash	114,563	251,688
	\$ 118,362	\$ 271,496

(CONTINUED)

	<u>2005</u>	<u>2004</u>
Reconciliation of Loss from Operations to Net Cash Used in Operating Activities:		
Loss from Operations	\$ (10,684,418)	\$ (8,997,258)
Adjustments to Reconcile Loss from Operations to Net Cash Used in Operating Activities		
Depreciation	1,663,187	754,794
(Increase) Decrease in Accounts Receivable	(33,285)	(927)
(Increase) Decrease in Prepaid Assets	(10,423)	75,738
(Increase) Decrease in Net Pension Asset	(148,857)	(210,406)
(Increase) Decrease in Inventory	119,445	(117,930)
Increase (Decrease) in Accounts Payable, Accrued Expenses, and Deferred Revenues	222,404	666,487
Increase (Decrease) in the Provision for Claims Liability	77,883	87,642
Net Cash Used in Operating Activities	<u>\$ (8,794,064)</u>	<u>\$ (7,741,860)</u>
Supplemental Disclosure of Non-Cash Activity:		
Purchase of Rolling Stock through Capital Leasing Arrangements \$	<u>-</u>	<u>\$ 7,997,184</u>

The accompanying notes are an integral part of these financial statements.

CAPITAL AREA TRANSIT SYSTEM
STATEMENTS OF PLAN NET ASSETS - PENSION TRUST FUND

DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Assets:		
Cash and Cash Equivalents	\$ 705,871	\$ 513,622
Receivables	22,354	21,702
Investments	<u>5,706,586</u>	<u>5,550,235</u>
Plan Net Assets Held in Trust for Pension Benefits	<u>\$ 6,434,811</u>	<u>\$ 6,085,559</u>

The accompanying notes are an integral part of these financial statements.

CAPITAL AREA TRANSIT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS - PENSION TRUST FUND

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Additions:		
Contributions:		
Employer Contributions	\$ 355,100	\$ 370,342
Employee Contributions	310,712	325,659
Other	<u>16,216</u>	<u>-</u>
Total Contributions	682,028	696,001
Investment Income:		
Investment and Dividend Income	181,460	162,138
Net Appreciation (Depreciation) in Fair Value	<u>(14,352)</u>	<u>415,972</u>
	167,108	578,110
Less Investment Expense	<u>(57,768)</u>	<u>(50,943)</u>
Net Investment Income	<u>109,340</u>	<u>527,167</u>
Total Additions	791,368	1,223,168
Deductions:		
Benefits	203,620	186,975
Employee Refunds	176,551	120,367
Administrative Expenses	<u>61,945</u>	<u>43,072</u>
Total Deductions	<u>442,116</u>	<u>350,414</u>
Change in Plan Net Assets	<u>349,252</u>	<u>872,754</u>
Plan Net Assets at Beginning of Year	<u>6,085,559</u>	<u>5,212,805</u>
Plan Net Assets at End of Year	<u>\$ 6,434,811</u>	<u>\$ 6,085,559</u>

The accompanying notes are an integral part of these financial statements.

CAPITAL AREA TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

Note 1 - Summary of Significant Accounting Policies -

Report Issued Under Separate Coverage

The Capital Area Transit System's ("the System") financial statements are an integral part of the City of Baton Rouge - Parish of East Baton Rouge's (City-Parish) Comprehensive Annual Financial Report (CAFR). The System has an operating agreement with the City Parish that addresses the use of City-Parish facilities as well as other operating matters.

Financial Reporting Entity

Capital Area Transit System is a corporation created by East Baton Rouge Parish to provide bus transportation services. In 2004, the Louisiana State Legislature enacted House Bill 1682, Act 581 to recognize the System as a political subdivision and provide that all its assets are public property. The Metropolitan Council exercises oversight over the System by approving fare changes and by approving operating subsidies from the City-Parish's general fund. Operating subsidies are also provided through federal grants. The fiscal year for the System and the City-Parish government is the calendar year.

Government Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, established criteria for determining which component units should be considered part of the City of Baton Rouge - Parish of East Baton Rouge for financial reporting purposes. The basic criteria are as follows:

1. Legal status of the potential component unit including the right to incur its own debt, levy of its own taxes and charges, expropriate property in its own name, sue and be sued, and the right to buy, sell and lease property in its own name.
2. Whether the City-Parish governing the System (Metropolitan Council or Mayor President) appoints a majority of board members of the potential component unit.
3. Fiscal interdependency between the City-Parish and the potential component unit.
4. Imposition of will by the City-Parish on the potential component unit.
5. Financial benefit/burden relationship between the City-Parish and the potential component unit.

Based on the previous criteria, the System is considered a component unit of the City of Baton Rouge, Parish of East Baton Rouge. In addition, based on the previous criteria, the System's management has included the Capital Area Transit System's Employees' Pension Trust Fund as a Blended Component Unit within the financial statements of the System.

The Capital Area Transit System Employees' Pension Trust Fund (the Trust) exists for the benefit of current and former System employees who are members of the plan. The Trust is governed by an equal number of Employer Trustees and Union Trustees.

Currently, the Trust is governed by a four member board composed of two members representing the Employer Trustees and two members elected as Union Trustees. The Trust is funded by the investment of the contributions from the System and member employees who are obligated to make the contributions to the Trust. The Trust does not issue a separately issued audit report.

Measurement Focus, Basis of Accounting and Presentation

The accounting policies of the System conform to accounting principles generally accepted in the United States of America as applicable to governments. The proprietary fund and the pension trust fund financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. The System uses fund accounting to report its financial position and results of operations. The operations of each fund are accounted for with a set of self balancing accounts that comprise its assets, liabilities, net assets, revenue, and expenses. The System has no governmental funds. A further explanation of the funds and their reporting classifications follows:

Proprietary Fund

Enterprise Fund - Enterprise Funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or change in net assets is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Accordingly, the System maintains its records on the accrual basis of accounting. Revenue from operations, investments and other sources are recorded when earned. Revenue received in advance is reflected as deferred revenue. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

The System applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict or contradict GASB pronouncements.

Fiduciary Fund

Pension Trust Fund is used to account for the accumulation of contributions for a defined benefit single employer pension plan providing retirement benefits to qualified employees.

The Pension Trust Fund's financial statements are prepared on the accrual basis of accounting. Contributions from the System and its employees are recognized as revenue in the period in which employees provide service to the System. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Restricted Assets and Liabilities

Certain assets, consisting of cash and cash equivalents, are segregated and classified as restricted assets which may not be used except in accordance with contractual terms, under certain conditions. These assets consist of a certificate of deposit restricted for insurance and held by the State of Louisiana and cash related to federal grants and related matching.

Investments

Investments are stated at fair value based on quoted prices. The change in fair value is recognized in operations.

Inventories

Inventories, principally repair parts and supplies, are stated at cost, which approximates market. Cost is determined by the first-in, first-out method.

Equipment

Equipment is recorded at cost. Depreciation or amortization is charged to expense over the estimated useful lives of the assets and is determined using the straight-line method. Expenditures for maintenance and repairs which do not materially extend the useful life of the assets are charged to expense as incurred. Useful lives for equipment used in computing depreciation range from 12 years for rolling stock to 3 years for certain office equipment.

Federal Grants and Dedicated Taxes

Federal grants are made available to the System for the acquisition of public transit facilities, buses and other transit equipment. Unrestricted operating grants and grants restricted as to purpose, but not contingent on the actual expenditures of funds, are recognized at that point in time when the right to the funds becomes irrevocable. Where the expenditure of funds is the prime factor for determining the eligibility for the grant proceeds, the revenue is recognized at the time when the expense is incurred.

In addition to Federal grants, the System is the recipient of monies established under R.S. 47:302.29(B) and R.S. 47:322.1, which sets aside the Louisiana State sales tax on hotel occupancy. These monies are provided into the East Baton Rouge Parish Community Improvement Fund (Improvement Fund). The System's share of these funds shall not be used to displace, replace or supplant funds previously appropriated or otherwise used for urban mass transit purposes. The monies in the Improvement Fund are appropriated annually by the State legislature. In addition, the System also receives monies from the East Baton Rouge Enhancement Fund (Enhancement Fund), which has similar restrictions and is created by the State legislature.

Compensated Absences

Employees earn vacation and sick leave in varying amounts according to continuing years of service as follows:

<u>Years of Service</u>	<u>Vacation</u>	<u>Sick</u>
0	None	1 day/month
1	7 days per year	1 day/month
2	13 days per year	1 day/month
6	17 days per year	1 day/month
15	24 days per year	1 day/month

Vacation must be taken by December 31, or it is lost for the union employees. For the non-union employees unused vacation can be carried forward to the next year. Sick leave is accumulated without time limitations and there is no limitation as to the amount paid upon termination or retirement. Vacation and sick leave are accrued as earned.

Claims and Judgements

The System provides for losses, including any anticipated related expenses, resulting from claims and judgments. A liability for such losses, (including related out-of-pocket expenses) is reported when it is probable that a loss has occurred and the amount can be reasonably estimated.

Cash Flows

For the purposes of the statements of cash flows, cash and cash equivalents include all highly liquid investments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Equity Classifications

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets - The components of net asset consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Operating vs. Non-Operating Revenue

The System recognizes rider fares, contracted fare services and advertising revenue as operating. All other revenues, including federal and state grants, and operating subsidies from the primary government are recognized as non-operating.

Receivables

Receivables consist of all revenues earned at year end and not yet received. Uncollectable accounts receivable are charged off directly against earnings when they are determined to be uncollectable. Use of this method does not result in a material difference from the valuation method required by general accepted accounting principles.

Reclassifications

Certain amounts presented in the 2004 columns have been reclassified from prior year's presentation. Such reclassifications had no effect on the prior year determination of restricted and unrestricted net assets.

Note 2 - Cash and Investments -

Cash and Cash Equivalents

The System's cash and cash equivalents consisted of the following as of December 31, 2005 and 2004:

	2005		
	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Totals
Cash on Hand and in Banks	\$ 12,764	\$ -	\$ 12,764
Certificates of Deposit	105,598	-	105,598
Money Market Accounts	-	705,871	705,871
Total Cash and Cash Equivalents	\$ 118,362	\$ 705,871	\$ 824,233
	2004		
	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Totals
Cash on Hand and in Banks	\$ 169,211	\$ -	\$ 169,211
Certificates of Deposit	102,285	-	102,285
Money Market Accounts	-	513,622	513,622
Total Cash and Cash Equivalents	\$ 271,496	\$ 513,622	\$ 785,118

Proprietary Fund cash and cash equivalents of \$118,362 and \$271,496 include \$3,799 and \$19,808 of unrestricted assets and \$114,563 and \$251,688 of restricted assets as of December 31, 2005 and 2004.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Neither the System nor the Pension Trust Fund, a blended presented component unit, has a deposit policy for custodial credit risk. As of December 31, 2005, \$133,077 of the government's bank balance of \$336,657 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the government's name. As of the same date the Pensions Trust Fund held no deposits with exposure to custodial credit risk because it only held money market accounts held in trust that are not categorized under GASB 3 requirements.

Statutes authorize the System's proprietary fund to invest in direct United States Treasury obligations; bonds, debentures, notes or other indebtedness issues or guaranteed by U.S. Government Instrumentalities which are federally sponsored or federal agencies that are backed by the full faith and credit of the United States; short-term repurchase agreements; and time certificates of deposit at financial institutions, state banks and national banks having their principal offices in Louisiana.

As of December 31, 2005 and 2004, certificates of deposit of \$105,598 and \$102,285 were pledged as collateral to the Louisiana Office of Workman's Compensation.

Investments

As of December 31, 2005 and 2004, assets classified as investments existed only in the Pension Trust Fund (the Trust). The assets of the Trust are invested in accordance with the investment policy of the Plan. Those assets are as follows:

	<u>Fair Values</u>	
	<u>2005</u>	<u>2004</u>
U.S. Treasury and Agency Bonds	\$ 915,895	\$ 827,137
Corporate Bonds	1,138,461	1,126,117
Corporate Stocks	2,980,233	2,874,577
Equity Mutual Fund	<u>671,997</u>	<u>722,404</u>
Total	<u>\$ 5,706,586</u>	<u>\$ 5,550,235</u>

As of December 31, 2005, the debt maturities of the Pension Trust Fund's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
US Treasury and Agency Funds	\$ 915,895	\$ -	\$ 536,999	\$ 209,842	\$ 169,054
Corporate Bonds	<u>1,138,461</u>	<u>16,067</u>	<u>353,309</u>	<u>124,121</u>	<u>644,964</u>
	<u>\$ 2,054,356</u>	<u>\$ 16,067</u>	<u>\$ 890,308</u>	<u>\$ 333,963</u>	<u>\$ 814,018</u>

Interest rate risk. In accordance with its investment policy, the Pension Trust Fund manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than ten years with a maximum maturity for any single security of 30 years.

Credit risk. The investment policy of the Pension Trust Fund limits investments in commercial paper and corporate bonds to ratings of A-1 and BBB or higher as rated by the nationally recognized statistical rating organizations (NRSROs). As of December 31, 2005, the Pension Trust Fund held no commercial paper investments. The Pension Trust Fund's investments in domestic corporate bonds as of December 31, 2005 varied between ratings of A and BBB consistent with the investment policy. The Pension Trust Fund's investments in U.S. Agencies all carry the explicit guarantee of the U.S. government.

Concentration of credit risk. The Pension Trust Fund's investment policy does not allow for an investment in any one issuer that is in excess of fifteen percent of the fund's total investments and no more than 30% of the total investment in any one industry.

Custodial credit risk - investments. For an investment this is the risk that, in the event of the failure of the counterparty, the Pension Trust Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty, or by the counterparty's trust department or agent, but not in the Pension Trust Fund's name. At December 31, 2005, all of the Pension Trust Fund's investments were held by an agent in the name of the Pension Trust Fund.

Note 3 - Receivables - Due From Other Governments -

Receivables due from other governments at December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Federal Transit Administration	\$ 1,118,012	\$ 385,328
Hotel - Motel Tax	65,936	109,231
Federal Emergency Management Association	<u>72,522</u>	<u>-</u>
	<u>\$ 1,256,470</u>	<u>\$ 494,559</u>

Note 4 - Equipment -

A summary of changes in fixed assets follows:

	<u>January 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2005</u>
Equipment, Primarily				
Transportation Vehicles	\$ 20,673,872	\$ 1,514,107	\$ (4,198,971)	\$ 17,989,008
Accumulated Depreciation	<u>(8,165,293)</u>	<u>(1,663,187)</u>	<u>4,128,510</u>	<u>(5,699,970)</u>
Total	<u>\$ 12,508,579</u>	<u>\$ (149,080)</u>	<u>\$ (70,461)</u>	<u>\$ 12,289,038</u>

	<u>January 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2004</u>
Equipment, Primarily Transportation Vehicles	\$ 12,095,607	\$ 8,683,059	\$ (104,794)	\$ 20,673,872
Accumulated Depreciation	<u>(7,551,191)</u>	<u>(718,896)</u>	<u>104,794</u>	<u>(8,165,293)</u>
Total	<u>\$ 4,544,416</u>	<u>\$ 7,964,163</u>	<u>\$ -</u>	<u>\$ 12,508,579</u>

Included in the equipment additions totals for 2004 was \$7,241,022 of buses which were still in production as of December 31, 2004 and consequently were not being depreciated. These buses were completed in early 2005 and placed in service at that time. Accordingly, depreciation on these buses began at that time. Depreciation expense for the period ending December 31, 2005 and 2004 totaled \$1,663,187 and \$754,794, respectively. The City-Parish (Primary Government) owns the terminal, administrative office building and related land which are used by the System for its operations. The City-Parish provides these facilities and land to the System at no charge through an operating agreement.

Note 5 - Accounts, Salaries and Other Payables -

The payables at December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Accounts Payable	\$ 905,177	\$ 702,817
Accrued Salaries	116,380	135,178
Employee Insurance Withholdings	25,151	115,264
Accrued Interest	<u>75,014</u>	<u>80,330</u>
	<u>\$ 1,121,722</u>	<u>\$ 1,033,589</u>

Note 6 - Working Capital -

Operations of the System are subsidized by the Federal and local governments through various cash grants and appropriations. These subsidies are reported under the caption of non-operating revenue as government operating grants and as operating transfers from the primary government in the statement of revenues, expenses and changes in net assets.

Note 7 - Pension Plan -

The System, as well as covered employees, makes contributions to the Capital Area Transit System Pension Trust Fund (Plan), a defined benefit single employer pension plan. The Plan is administered by a local actuarial consulting company, under the direction of a Board of Trustees. All full time employees become eligible for participation upon the date entering covered employment. Normal retirement date is the first day of the month following a member's 65th birthday and completion of 10 years of service. Benefits vest after ten years of service. A participant is entitled to a monthly normal retirement benefit beginning on his normal retirement date in an amount of 1.2% of average compensation for each year of service after February 1, 1963.

Average compensation is determined as the average of the five consecutive plan years of compensation that produces the highest average. Early retirement is permitted for participants who have 15 years of service (five of which is after February 1, 1973) and who have attained age 55; early retirement benefits are reduced from normal retirement benefits. Membership, pension benefit obligation, and other pension information are obtained from the Plan's Annual Actuarial Valuation Reports as of December 31, 2005 and 2004. The valuation is performed at the beginning of the plan year.

Current membership is comprised of the following at December 31:

	<u>2005</u>	<u>2004</u>
Retirees and Beneficiaries Currently Receiving Benefits	48	44
Vested Terminated Employees	16	16
Active Employees:		
Fully Vested	42	36
Not Vested	<u>114</u>	<u>126</u>
	<u>220</u>	<u>222</u>

For the years ended December 31, 2005 and 2004, the System had an annual payroll of approximately \$5,800,000 and \$5,600,000. Total annual covered payroll for the years ended December 31, 2005 and 2004 was \$4,784,924 and \$4,623,606, respectively.

The employees and the System each contributed, as required, 7% and 8%, of each employee's salary. For the plan year beginning February 1, 1995, the System's pension plan was granted "qualified" status by the IRS which enables contributions to the plan to be non-taxable to the employee. The plan's long-range ability to pay benefits also depends on the future financial health of the Corporation.

Key actuarial assumptions include 7% interest compounded annually, mortality tables from the 1994 Uninsured Mortality Table for males and females, anticipated turnover and disability rates ranging from 0.11% to 5.10% based on age of employee, and salary increases of 5% annually. The actuarial cost method is the aggregate actuarial cost method with allocation based on earnings. Asset valuation method is based on the current market value as of the last day of the prior plan year.

The System's annual pension cost and net pension asset for the years ended December 31, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Annual Required Contribution	\$ 190,796	\$ 174,075
Interest on Net Pension Obligation	(81,795)	(68,843)
Adjustment to Annual Required Contribution	<u>109,459</u>	<u>92,832</u>
Annual Pension Cost	218,460	198,064
Contributions Made	<u>(367,317)</u>	<u>(383,084)</u>
Increase in Net Pension Asset	148,857	185,020
Net Pension Asset, Beginning of Year as Previously Reported	1,168,484	958,078
Actuarial Determined Adjustment to Prior Year	<u>-</u>	<u>25,386</u>
Net Pension Asset, Beginning of Year as Restated	<u>1,168,484</u>	<u>983,464</u>
Net Pension Asset, End of Year	<u>\$ 1,317,341</u>	<u>\$ 1,168,484</u>

Trend information is as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
December 31, 2005	\$ 218,460	163%	\$ 1,317,341
December 31, 2004	\$ 198,064	187%	\$ 1,168,484
December 31, 2003	\$ 227,665	154%	\$ 983,464

Note 8 - Deferred Compensation Plan -

The System offers its employees participation in the Louisiana Public Employees' Deferred Compensation Plan (Compensation Plan), created by Louisiana Revised Statutes and in accordance with Section 457 of the Internal Revenue Code. The Compensation Plan is available to all full time employees and permits them to defer a portion of their salary until future years. All amounts of compensation deferred under the Compensation Plan and related activities are solely the property and the rights of the State of Louisiana, subject only to the claims of the general creditors of the State of Louisiana.

Note 9 - Commitments and Contingencies -

Contingencies

The System receives financial assistance directly from federal agencies which are subject to compliance audits under OMB Circular A-133 (Single Audit) and monitoring reviews by the granting agencies. As a result, amounts might be subject to disallowance upon acceptance of the audits and monitoring reviews by the federal granting agencies. The Single Audit performed for the year 2005 revealed questioned costs of approximately \$81,000 which may need to be returned to the federal agency upon final acceptance. As amounts owed, if any, are not yet determinable, no liability has been recorded in System's financial statements.

Grant Commitments

Grant agreements under which the system receives federal financial assistance require the system to match 17%-20% of dollars received. As of December 31, 2005, the System has committed restricted cash to fund local matching requirements, however, additional fiscal effort will be required. Similar commitments existed as of December 31, 2004.

Note 10 - Self-insurance and Legal Claims -

The System is exposed to various risks of loss related to torts, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The System manages its exposure to losses through a self-insurance program. For quite some time, including the period January 1, 2004 through August 31, 2004, the System retained liability for the first \$250,000 for general liability claims and workers' compensation claims. Excess general liability claims were commercially insured up to \$750,000. Beginning September 1, 2004, the System cancelled its commercial policy and thus became self-insured for all bodily injury and property damage tort claims, in addition to workers' compensation claims. At December 31, 2005 and 2004, accrued claim liabilities of \$1,292,775 and \$1,214,892, are included on the Proprietary Fund's statement of net assets, as follows:

	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Total</u>
2005	\$ 158,895	\$ 1,133,880	\$ 1,292,775
2004	\$ 115,780	\$ 1,099,112	\$ 1,214,892

The accruals, which are based upon the advice of counsel, are in the opinion of management, sufficient to provide for all probable estimable claims liabilities at December 31, 2005 and 2004. In addition, the claims will not be paid until appropriated by the System. Changes in claims liability during the years ended December 31 are as follows:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Year End</u>
2005	\$ 1,214,892	391,091	(313,208)	\$ 1,292,775
2004	\$ 1,127,250	622,021	(534,379)	\$ 1,214,892

Note 11 - Significant Sales Contract -

The System provides transportation services to Louisiana State University (LSU) under an agreement with LSU's Board of Supervisors. Under this agreement, the System provides LSU with 45 passenger buses, personnel, and supplies to operate a mass transit system. As consideration for the service rendered, LSU paid the System approximately \$1,960,000 and \$1,860,000 during 2005 and 2004. These amounts are included in charges for services on the statements of revenues, expenses and changes in net assets. Management expects that the contract will be renewed.

Note 12 - Capital Lease Obligation -

The System is the lessee of 28 Blue Bird transit buses and 5 Federal Coach vans under two separate lease agreements with First Security Leasing, Inc. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the minimum lease payments as of the inception date.

Changes in the capital lease liability during the years ended December 31, 2005 and 2004 are as follows:

	<u>Beginning of Year Liability</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>End of Year Liability</u>	<u>Due Within One Year</u>
2005	\$ 7,917,554	\$ -	\$ (523,963)	\$ 7,393,591	\$ 549,791
2004	\$ -	\$ 7,917,554	\$ -	\$ 7,917,554	\$ 523,964

Minimum future lease payments under these capital leases as of December 31, 2005 for each of the next five years and each subsequent five year period are:

<u>Year ended December 31,</u>	<u>Amount</u>
2006	\$ 903,248
2007	903,248
2008	903,248
2009	903,248
2010	903,248
2011-2015	4,238,064
2016	<u>833,704</u>
Total minimum lease payments	9,588,008
Less: Amount representing interest	<u>(2,194,417)</u>
Present value of minimum lease payments	<u>\$ 7,393,591</u>

The interest rates on the capital leases were 4.87% each.

Note 13 - Current Operating Environment -

As shown in the accompanying financial statements, the System experienced a net loss before capital contributions of \$1,243,164 and a bottom line net income of \$749,471 during the year ended December 31, 2005. The System had a significant increase in capital contributions during the year in excess of \$1 million dollars which caused the bottom line net income. This loss before capital contributions, compounded with prior year losses, has created a deficit in unrestricted net assets. In addition, current liabilities as of the year ended exceeded current assets by \$900,633 signifying marginal ability to satisfy current obligations in the normal course of operations. The System is dependent on federal and local subsidies to cover the shortfall of passenger revenues over expenses. While these revenues have increased from previous years, the increase has not been sufficient to cover increased costs of operations. Efforts to reverse the trend of operating losses include a change in the risk management policy and reductions in administrative staff. Management will continue efforts to reduce costs while maintaining current service levels, however, cuts in services may be necessary if additional funding is not obtained.

Note 14 - Prior Period Adjustment -

A prior period adjustment was made to the net assets of the Proprietary Fund to properly accrue the salary-related payments associated with the payment of compensated absences upon termination as required by Governmental Accounting Standards Board Statement Number 16 and to reflect a change in the compensated absence policy in 2004 allowing carryover of unused vacation for non-union employees:

	<u>Proprietary Fund</u>
Net Assets at January 1, 2004, as Originally Reported	\$ 4,421,480
To accrue the salary related payments associated with the payment of compensated absences upon termination and to reflect a change in vacation policy.	<u>(57,678)</u>
Net Assets at January 1, 2004, as Restated	<u>\$ 4,363,802</u>

The prior period adjustment was recorded to the net assets classified as unrestricted.

Note 15 - Concentrations -

Substantially all non-management employees are covered under a collective bargaining agreement.

Note 16 - Hurricane Katrina -

On August 29, 2005, hurricane Katrina hit the southeast coast of Louisiana. The System took immediate emergency actions to relieve transportation problems in the Baton Rouge area including providing emergency personnel with transportation assistance and providing expanded services for the evacuees in the Baton Rouge area. The Federal Emergency Management Agency (FEMA) reimbursed the System \$72,522 as a reimbursement for additional costs incurred by the System during this period. This amount is included in due from other governments at December 31, 2005 as reflected in these financial statements.

Also in connection with the hurricane, several buses belonging to the Regional Transit Authority (RTA) of New Orleans were deployed at the direction of FEMA to the Baton Rouge area to assist the System with the large increase in ridership being experienced due to hurricane evacuees that had relocated to the Baton Rouge area. Under this agreement with FEMA and the RTA, all passenger fees collected by the RTA buses operating in the Baton Rouge area were for the System. The System was also allowed to claim all passenger counts of the RTA buses. All expenses of operating the RTA buses were paid directly to RTA by FEMA.

CAPITAL AREA TRANSIT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB STATEMENT NO. 25

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Payroll</u>
January 1, 2006	\$ 6,305,722	\$ 5,968,124	\$ N/A	109.32%	\$ 4,784,924	N/A
January 1, 2005	\$ 5,584,893	\$ 5,428,930	\$ N/A	102.87%	\$ 4,623,606	N/A
January 1, 2004	\$ 4,986,296	\$ N/A	\$ N/A	N/A	\$ 4,149,773	N/A
January 1, 2003	\$ 4,160,734	\$ 4,309,796	\$ 171,252	96.03%	\$ 3,991,134	4.29%
January 1, 2002	\$ 4,244,806	\$ 4,763,742	\$ 518,936	89.11%	\$ 4,368,258	11.88%
January 1, 2001	\$ 4,113,469	\$ 4,113,469	\$ N/A	100.00%	\$ 4,099,654	0.00%
January 1, 2000	\$ 3,752,507	\$ 3,752,507	\$ N/A	100.00%	\$ 3,917,671	0.00%
January 31, 1999	\$ 2,476,580	\$ 2,814,804	\$ 338,224	87.98%	\$ 2,569,374	13.16%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
December 31, 2005	\$ 190,796	\$ 355,099	186.11%
December 31, 2004	\$ 174,075	\$ 370,342	212.75%
December 31, 2003	\$ 207,283	\$ 350,140	168.92%
December 31, 2002	\$ 217,556	\$ 333,469	153.28%
December 31, 2001	\$ 106,152	\$ 297,684	280.43%
December 31, 2000	\$ 100,051	\$ 296,920	296.77%
December 31, 1999	\$ 115,024	\$ 230,118	200.06%
January 31, 1999	\$ 107,195	\$ 192,713	179.78%

NOTES TO THE SCHEDULES OF TREND INFORMATION LISTED ABOVE

The information presented above was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date December 31, 2005

Actuarial Cost Method Aggregate actuarial method. Under this method, a separate actuarial accrued liability and unfunded liability is not identified or amortized. In years prior to January 1, 2003, the System used the frozen entry age normal method.

Amortization Method N/A

Remaining Amortization Period N/A

Asset Valuation Method

Current market value as of the last day of the plan year adjusted to smooth realized and unrealized capital gains and losses over a three year period by deferring one-third of such gains or losses accrued in the prior fiscal year and two-thirds of such gains or losses accrued in the current fiscal year.

Actuarial Assumptions:

Investment Rate of Return	7%
Projected Salary Increases	5%

CAPITAL AREA TRANSIT SYSTEM

SINGLE AUDIT REPORTS

DECEMBER 31, 2005

BATON ROUGE, LOUISIANA

CONTENTS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.....	Page 1 - 2
Independent Auditor's Report on Compliance with Requirements Applicable to the Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	3 - 4
Schedule of Expenditures of Federal Awards.....	5
Notes to Schedule of Expenditures of Federal Awards.....	6
Schedule of Findings and Questioned Costs.....	7 - 11
Summary Schedule of Prior Audit Findings.....	12 - 16

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**



Hannis T. Bourgeois, LLP

Certified Public Accountants

Randy J. Bonneau, CPA*
Joseph D. Richard, Jr., CPA*
Ronnie E. Stumper, CPA*
Fernand P. Gentre, CPA*
Stephen M. Huggins, CPA*
Monica L. Zurno, CPA*
Ronald L. Gagnet, CPA*
Douglas J. Nelson, CPA*
Celeste D. Viator, CPA*
Russell J. Regweber, CPA*
Laura E. Monroe, CPA*
R. David Wascom, CPA*

2322 Tremont Drive
Baton Rouge, LA 70809
Phone: (225) 928-4770
Fax: (225) 926-0945

*Members American Institute of
Certified Public Accountants*

1175 Del Este Avenue, Suite B
Denham Springs, LA 70726

www.htbcpa.com

*A Professional Accounting Corporation

May 12, 2006

To the Board of Directors
Capital Area Transit System
Baton Rouge, Louisiana

We have audited the financial statements of Capital Area Transit System (the System), as of and for the year ended December 31, 2005, and have issued our report thereon dated May 12, 2006, which includes a paragraph emphasizing our concerns over the System's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the System's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-1 to 2005-3. We also noted other matters involving internal control over financial reporting that we have reported to management of the System in a separate letter dated May 12, 2006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their

assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of management, the Office of the Legislative Auditor, State of Louisiana, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hannia T. Bourgeois, LLP

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**



Hannis T. Bourgeois, LLP

Certified Public Accountants

Randy J. Bonnecaze, CPA*
Joseph D. Richard, Jr., CPA*
Ronnie E. Stamper, CPA*
Fernand P. Genre, CPA*
Stephen M. Huggins, CPA*
Monica L. Zummo, CPA*
Ronald L. Gagnet, CPA*
Douglas J. Nelson, CPA*
Celeste D. Viator, CPA*
Russell J. Resweber, CPA*
Laura E. Munroe, CPA*
R. David Wascum, CPA*

*A Professional Accounting Corporation

2322 Tremont Drive
Baton Rouge, LA 70809
Phone: (225) 928-4770
Fax: (225) 926-0945

*Members American Institute of
Certified Public Accountants*

1175 Del Este Avenue, Suite B
Denham Springs, LA 70726

www.htbcpa.com

May 12, 2006

To the Board of Directors
Capital Area Transit System
Baton Rouge, Louisiana

Compliance

We have audited the compliance of the Capital Area Transit System (the System) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. The System's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the System's compliance with those requirements.

In our opinion, the System complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2005-4 and 2005-5.

Internal Control Over Compliance

The management of the System is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the System's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the System's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-1 to 2005-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the System as of and for the year ended December 31, 2005 and have issued our report thereon dated May 12, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of management, the Office of the Legislative Auditor, State of Louisiana, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hammis T. Bourgeois, LLP

CAPITAL AREA TRANSIT SYSTEM

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2005

Federal Grantor/ Program Title	CFDA Number	Project Number	<u>Expenditures</u>
<u>Federal Transit Administration:</u>			
Bus Surv, Fare Boxes, Misc Capital	20.507	LA-03-0099	\$ 918,956
Substitution of FY-88 and FY-86 Funds	20.507	LA-90-X079	132,838
Capital, Operating, and Planning Assistance	20.507	LA-90-X183	159,409
Capital, Operating, and Planning Assistance	20.507	LA-90-X198-00	24,070
Purchase Vans, PM, CMAQ Expansion	20.507	LA-90-X208-00	6,032
2003 Formula Grant	20.507	LA-90-X250-00	1,239,290
2003 Formula Grant	20.507	LA-90-X250-02	141,481
2004 Formula Grant	20.507	LA-90-X268-00	1,835,695
2005 Formula Grant	20.507	LA-90-X281-00	2,231,060
2005 Formula Grant	20.507	LA-90-X281-08	418,650
2005 Capital Grant	20.507	LA-03-0118	<u>150,533</u>
Total CFDA Number 20.507			7,258,014
<u>United States Department of Homeland Security:</u>			
Passed Thru the State of Louisiana - Military			
Department -			
Office of Homeland Security and Emergency			
Preparedness	97.036	033-UUVH6-00	<u>72,522</u>
Total Federal Award Expenditures			<u>\$ 7,330,536</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CAPITAL AREA TRANSIT SYSTEM

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2005

Note 1 - General -

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal awards of Capital Area Transit System (the System). The System's reporting entity is defined in Note 1 to the financial statements for the year ended December 31, 2005. All federal awards received from federal agencies are included on the schedule.

Note 2 - Basis of Accounting -

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the System's financial statements for the year ended December 31, 2005.

Note 3 - Relationship to Financial Statements -

Amounts reported in the Schedule of Expenditures of Federal Awards agree with the amounts reported in the related financial reports.

Note 4 - Indirect Funding -

Of the \$7,258,014 of federal grant expenditures under program 20.507, \$322,349 was received as indirect funding from the City of Baton Rouge - Parish of East Baton Rouge primary government.

CAPITAL AREA TRANSIT SYSTEM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2005

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified, with an emphasis of a matter regarding the System's ability to continue as a going concern.

- Material weakness(es) identified? _____ Yes ☒ no
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes _____ none reported

Noncompliance material to financial statements noted? _____ Yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes ☒ no
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes _____ none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133?

☒ Yes _____ no

Identification of major program:

CFDA Number

20.507

Name of Federal Program

Federal Transportation Administration

- The threshold for distinguishing types A & B programs was program expenditures exceeding \$300,000.
- The System did qualify as a low-risk auditee.

(2) Findings Relating to the Financial Statements Reported in accordance with *Government Auditing Standards*:

Reportable conditions were noted as follows:

2005 - 1 Bank Reconciliations -

Finding

In the prior year, the prior CPA noted that bank reconciliations were not being prepared in a timely manner. In the current year, we also noted that the general operating account had not been reconciled for the entire year. When a reconciliation was prepared for the general operating account there was an unreconciled difference of approximately \$23,000 as of December 31, 2005. The various other cash accounts were being reconciled but only to the bank balance each month and not to the general ledger balances. At our request, these other accounts were adequately reconciled for us by accounting personnel to the general ledger balances at December 31, 2005.

Recommendation

Monthly preparation of bank reconciliations in a timely manner and review thereof by the CFO play a crucial role in ensuring the accuracy of the monthly financial statements and detection of unauthorized transactions. All cash accounts should be reconciled not only to the bank balance but also to the general ledger balances. It is imperative that these reconciliations and corresponding review thereof, be done on a timely basis at the end of each month. This review should focus on any unusual or stale items. Any such items should be investigated and fully resolved.

Management's Response

Bank reconciliations will continue to be performed on a monthly basis for all cash accounts by the Accountant. The accounts will be reconciled to both the bank statement and the general ledger to ensure accuracy. A further review will be made by the Controller of any unusual or stale items, and such items will be investigated and resolved.

2005-2 - Accounts Payable -

Finding

During our current year audit it was noted that an accounts payable subsidiary ledger at December 31, 2005 could not be generated from the accounting system since payments against these accounts payable had been made subsequent to year end. Also a hard copy of the subsidiary ledger at December 31, 2005 was not maintained. As a result, an extensive amount of work had to be done by accounting personnel in an attempt to re-create such a listing that reconciled to the general ledger. During this process, it was noted that approximately \$35,000 of accounts payable had been recorded twice in both the accounts payable subsidiary ledger and the general ledger. However, it did appear that these items had been properly paid only one time. In addition, during this reconciliation process it was discovered that several additional items in the amount of approximately \$165,000 should have been recorded as accounts payable at year end and other items in the amount of approximately \$50,000 were recorded as an accounts payable at year end in error. All necessary adjustments were made to correct these amounts at December 31, 2005.

Recommendation

We recommend in the future that a hard copy of the accounts payable subsidiary ledger that reconciles to the general ledger be maintained for each month end. This listing is especially critical at year end. Management should review this listing for accuracy including a proper cut off of accounts payable and immediately investigate any differences or unusual items. Also, management should implement new policies to ensure accounts payable invoices are not entered in the subsidiary ledger more than once.

Management's Response

A hard copy of the accounts payable subsidiary ledger for each month end will be maintained. The Controller will review this listing for accuracy, proper cut off, and duplicate entries of accounts payable invoices. Management will also enforce efforts and set controls to ensure that invoices are not entered more than once.

2005-3 - Accounts Receivable -

Finding

During the current year it was noted that the accounts receivable subsidiary ledger for customers was not being reconciled on a monthly basis. This account was out of balance by approximately \$13,700. Management did research the outage at our request and was able to identify the majority of the difference. The largest item was an \$8,840 accounts receivable from Baton Rouge Community College that had been recorded in March 2005 but not properly reversed when the payment was received. All necessary adjustments were made to correct these differences.

Recommendation

We recommend the account receivable subsidiary ledger be reconciled on a monthly basis. This reconciliation should be reviewed for accuracy with any differences or unusual items being investigated timely.

Management's Response

The accounts receivable subsidiary ledger will be reconciled on a monthly basis by the Accountant. This reconciliation will be reviewed by the Controller and any differences or unusual items will be thoroughly investigated.

(3) Findings and Questioned Costs Relating to Federal Awards:

2005-4

Compliance Area: Allowable Cost
2005 Formula Grant/LA-90-X281-08
Grant Year and No: 2004 Formula Grant/LA-90-X268-00
Questioned Cost: \$2,583

Criteria

Cost allocated to grant activities must be allocated fairly to all program/activities of the grantee.

Condition

The system recorded several accounts payable items twice in error as discussed in Finding 2005-2. Of these amounts, \$2,583 was improperly charged to preventive maintenance expense.

Effect

As the system draws down federal funding based on the total expenses charged to the maintenance department, the system requested more money than should have been allowed in the amount of \$2,583.

Recommendation

The accounts payable subsidiary listing should be reconciled on a monthly basis. The System should review the accounts payable listing for accuracy before preparing the Echo request each month.

Management's Response

Management will review the accounts payable listing on a regular basis to help prevent any future occurrences.

2005-5

Compliance Area: Allowable Cost
Grant Year and No: 2005 Formula Grant/LA-90-X281-08
Questioned Cost: Not determinable

Criteria

According to OMB Circular A-87's general criteria, costs charged to grant programs must be allocable to the programs/activities funded by the grant, and all programs/activities of the grantee must bear their fair share of all costs. Allowable activities include vehicle maintenance, expanded route services, vehicle purchases, ADA services, planning, and administrative costs attributable to the grant activities. Grant funds are not to be used for operations.

Condition

The following position's compensation costs was charged in full (100%) to the federal grant.

- Procurement Administrator

The position listed above appears to be partially general operational activities or administrative in nature. The compensation costs associated with this position does not appear to benefit the grant activities 100%.

Effect

The System may have charged unallowable costs for the portion of this employee's salary not considered to benefit the grant activities.

Recommendation

We recommend the System discuss this matter with the FTA and implement the recommendations of the FTA and develop an allocation plan for this employee if deemed necessary.

Management's Response

Management asserts that the salary for the above position is necessary and reasonable for administration of the FTA grants and therefore is an eligible project administration expense. It is treated as a direct cost since 100% of that employee's time is spent administering the award and no allocation is needed. Management will contact the FTA to discuss this matter further.

CAPITAL AREA TRANSIT SYSTEM

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2004-1

Compliance Area: Allowable Costs

Grant year and No. 2003 Formula Grant/LA-90-X250-01

2004 Formula Grant/LA-90-X268-00

Questioned Costs: \$110,600 for 2004 and additional questioned costs of \$78,303 for 2005.

Criteria

According to OMB Circular A-87's general criteria, costs charged to grant programs must be allocable to the programs/activities funded by the grant, and all programs/activities of the grantee must bear their fair share of all costs. Allowable activities include vehicle maintenance, expanded route services, vehicle purchases, ADA services, planning, and administrative costs attributable to the grant activities. Grant funds are not to be used for operations.

Condition

The following positions' compensation costs were charged in full (100%) to the federal grant and are questioned as allowable:

Operations Statistician
Operations Supervisor - ADA
Marketing Director
Operations Dispatcher - CMAQ
Operations Supervisor - CMAQ

The positions listed above appear to be general operational activities or administrative in nature. The compensation costs associated with these positions does not appear to benefit the grant activities 100%. Furthermore, the System's process for ensuring that only allowable compensation costs are charged to the grant did not detect these unallowable costs.

Effect

The System charged unallowable costs of \$110,600 for 2004 and additional unallowable costs of \$78,303 for 2005.

Recommendation

The prior CPA recommended, the System cease charging the compensation costs of the above positions to the grant and should contact the FTA regarding the current year's questioned costs.

Corrective Action

Upon receiving notice of this finding in June 2005, Management spoke with the FTA regarding this matter

who concurred with the finding. Upon receiving FTA concurrence management complied with the recommendation cited above. However, the System did not receive the FTA concurrence until June 2005. Therefore, the questioned allocations occurred for the first six months of 2005, resulting in \$78,303 of additional questioned cost for 2005.

2004-2

Compliance Area: Reporting

Grant year and No: All projects reported under Schedule of Federal Awards

Questioned Costs: None

Criteria

Reports of Disadvantaged Business Enterprises Awards or Commitments and Payments (DBE reports) must be filed.

Condition

During the prior year and current year audit, the DBE reports were filed, however they were not filed timely. During 2005, the system filed one DBE report in April relating to the 2004 fiscal year. A report for the fiscal year 2005 was filed in January 2006. The system was not in compliance during 2004 or 2005 with this reporting requirement.

Effect

The System is non-compliant with the regulations for reporting.

Recommendation

The reports should be filed within the time frames stated in the regulations. This was also the recommendation of the prior CPA as well.

Management's Response

CATS will coordinate with CRPC to ensure DBE reports are filed timely.

2004-3

Compliance Area: Allowable Costs

Grant year and No. All projects reported under the Schedule of Federal Awards

Questioned Costs: Undetermined

Criteria

Costs charged to federal grants, whether direct or indirect, must be allowable per the criteria set forth in OMB Circular A-87 and FTA regulations. Grantees should have a process by which costs are reviewed for allowance. Upon billing the federal granting agency for reimbursement of allowable costs under the grant, unallowable costs should be excluded.

Condition

The System's process for identifying unallowable costs could be improved by identifying unallowable costs at the invoice or purchase level. Such charges identified could be segregated into a separate general ledger accounts that captures unallowable costs separate from general ledger accounts for similar costs types that are allowable.

Example: Advertising - OMB Circular rules are very specific regarding what is and what is not allowable. Some advertising costs may be allowed, while others may be disallowed. Separate G/L accounts could segregate such costs.

Effect

Effect: The System could fail to detect unallowable costs and pass on those costs to the grant.

Recommendation

The prior CPA recommended, the System should structure its general ledger chart of accounts to capture all unallowable costs within each natural classification. Unallowable costs identified at the purchase level should be coded to an unallowable cost account.

Corrective Action

The system did not purchase software to reconfigure the chart of accounts during 2005 due to budget constraints. The system hopes to purchase new software during 2006. However, the CFO reviews all invoices to ensure that the costs are allowable.

2004-4

Compliance Area: Allowable Costs

Grant year and No: CMAQ Expansion/LA-90X208-00

Questioned Costs: \$62,000

Criteria

Per FTA grant regulations, reimbursements made for expanded service route expenses were calculated based on the actual operating expenses incurred less revenues generated from those routes.

Condition

The system did not reduce its reimbursement requests by the amount of revenues generated from the expanded service routes.

Effect

The System charged unallowable costs to the grant of approximately \$62,000.

Recommendation

The prior CPA recommended the System should reduce its operating costs for expanded service routes by the revenues generated from those routes to determine the amount of federal funds for reimbursement.

Corrective Action

Management researched the calculation requirements for expanded services route expense finding no requirement that the calculation should be based on actual expenses less revenues generated. However, management has indicated that they complied with the recommendation listed above.

2004-5

Compliance Area: Reporting

Grant year and No: All projects reported under the Schedule of
Expenditures of Federal Awards

Questioned Costs: None

Criteria

Recipients of FTA Formula and Capital Grants must submit form 269A to the FTA on a quarterly basis. The report should contain accurate and reliable financial data for the period reported.

Condition

The reports filed for each of the quarters during 2004 contained a one-month lag; that is, the report for the first quarter 2004 contained financial data for the period December 1, 2003 through February 29, 2004. The reason for this lag-time was that the reports were being prepared on the cash basis for when grants are drawn-down, as opposed to the accrual basis reflecting the period in which the allowable costs are incurred.

Effect

The financial reports submitted to the FTA did not contain current financial data that is consistent with the basis of accounting used by the System.

Recommendation

The prior CPA recommended the System should file its financial reports on the same basis (accrual) as it reports its financial statements and those reports should contain financial transactions for that same period.

Corrective Action

After discussing with the FTA, management implemented the recommendation. These reports are now prepared on the accrual basis.

2004-6

Allowable costs

Grant year and No. CMAQ Expansion/IA-90-X208-00
2003 Formula Grant LA90-X250-01
2004 Formula/Grant/LA90-X268-00

Questioned costs: \$25,000

Criteria

Costs allocated to grant activities must be allocated fairly to all programs/activities of the grantee.

Condition

The System charged costs for expanded service routes based upon a cost rate per hour driven. In computing the cost per hour, the System included all allowable expenses of the system, including costs charged to the grant under other activities. In order not to "double-dip", the System then reduced charges to the other activities by a percentage of the expenses that were included in the calculation of the cost per hour rate.

This methodology appears to provide an equitable allocation for the expanded service routes. However, the prior CPA took exception to the rate used for reducing the expenses for the other activities. The rate used was based upon miles driven rather than hours driven. The reduction rate should be based upon hours (the same unit used to calculate the reimbursement rate) rather than miles.

Effect

The System may have unfairly allocated costs of the expanded service routes to the grant.

Recommendation

The prior CPA recommended the System use the same percentage rate to reduce the costs of the other activities as it uses in the calculation of the hourly rate for the expanded service routes.

Corrective Action

The system implemented the recommendation on the next reporting cycle.

CAPITAL AREA TRANSIT SYSTEM

MANAGEMENT LETTER

DECEMBER 31, 2005



Randy J. Bonnacaze, CPA*
Joseph D. Richard, Jr., CPA*
Ronnie E. Stamper, CPA*
Fernand P. Genre, CPA*
Stephen M. Huggins, CPA*
Monica L. Zumo, CPA*
Ronald L. Gagnier, CPA*
Douglas J. Nelson, CPA*
Celeste D. Viator, CPA*
Russell J. Resweber, CPA*
Laura E. Monroe, CPA*
R. David Wascom, CPA*

**A Professional Accounting Corporation*

2322 Tremont Drive
Baton Rouge, LA 70809
Phone: (225) 928-4770
Fax: (225) 926-0945

*Members American Institute of
Certified Public Accountants*

1175 Del Este Avenue, Suite B
Denham Springs, LA 70726

www.htbcpa.com

May 12, 2006

To the Board of Directors
Capital Area Transit System
Baton Rouge, LA

In planning and performing our audit of the financial statements of the Capital Area Transit System (the System) for the year ended December 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated May 12, 2006, on the basic financial statements of the Capital Area Transit System.

CURRENT YEAR FINDINGS:

Voided Checks

Finding:

We noted that not all voided checks are being properly retained. Certain checks can be torn or damaged during the printing process or can be printed incorrectly. Accordingly, the corresponding reprints/corrections of these checks then receive new check numbers. These damaged or misprinted checks are not being kept for documentation purposes.

Recommendation:

We recommend that the above unused checks be stamped void with the signature section removed. These properly voided checks should then be retained for documentation purposes.

Management Response:

Voided checks will be stamped "void" and the signature section removed. These voided checks will then be retained accordingly.

Cash Disbursements

Finding:

We noted that there was noncompliance with established procedures, or situations where internal controls could be enhanced relating to the following items:

1. The established policy of stamping the invoice with the posted stamp was missing on some invoices.
2. Lack of approval for payment by department supervisor was missing on some invoices. However, in some cases the authorized check signer reviews the supporting invoice before signing the check thereby indicating approval.
3. Certain invoices were coded to the wrong vendor.
4. Certain invoices were unable to be located.

Recommendation:

We recommend a more stringent effort be made to ensure that employees follow established procedures uniformly and consistently in these areas. By doing so, internal controls would be strengthened.

Management Response:

The Controller will conduct monthly testing to verify that invoices have been stamped "posted," that appropriate approval is documented on the invoices, and that invoices are coded to the correct vendor. Procedures for record retention will be reinforced with the appropriate employees.

Compensated Absences

Finding:

We noted that there were various deficiencies and inaccuracies regarding accrued compensated absences relating to the following items:

1. Accrued vacation for part-time administrative employees was not properly calculated.
2. Five employees had negative accrued sick leave balances and two employees had negative accrued vacation balances.
3. Certain vacation/leave time was charged to the incorrect time code.
4. Incorrect pay rates were being used to calculate accrued leave time for some employees.
5. For two employees selected for testing, the time taken per the payroll leave records did not agree to the time taken per the accrued leave schedule.

Recommendation:

Although the effects of these inaccuracies appear to be immaterial to the financial statements, we recommend a monthly review of all accrued leave time be performed by department supervision; as well as, the implementation of a policy that strictly prohibits advances of any kind regarding sick or

vacation time. Also, we recommend a more stringent effort be made to ensure that employee's time is being coded properly, the proper pay rates are being used in the leave liability calculations, and actual time used per the payroll records reconciles to the time used per the accrued leave schedule.

Management Response:

Department supervisors will conduct a monthly review of accrued leave time to be signed by the Controller. More effort will be used when calculating and coding accrued leave time.

Inventory

Finding:

We noted that monthly reports, detailing the total dollar amount of parts inventories used in the month, were not being regularly submitted to the accounting department by warehouse personnel. Also, we noted that there were no follow up efforts made by accounting personnel to obtain such reports. Furthermore, we noted that the months that were submitted were incorrect. Consequently, this caused parts inventory balances to be incorrectly stated throughout the year. However, it was noted that the final inventory balances per the general ledger at December 31, 2005 were properly adjusted to actual physical counts made on that date.

Recommendation:

We recommend that such reports be provided to the accounting department on a monthly basis. These reports should be signed off by the Parts Department Supervisor as being correct and signed off by the Accounting Manager as being received. The procedures to prepare the monthly usage reports should be discussed in detail between those two departments to ensure correct amounts are being reported.

Management Response:

Action has been taken to ensure that the Parts Department delivers a monthly report detailing the amount of parts used to the Controller in a timely manner. Any discrepancies are immediately reported to the Parts Department so corrective action can be taken.

Finding:

We noted that the beginning on-hand inventory balances on the monthly fuel and oil inventory reconciliations are not being agreed to the prior month's ending on-hand inventory as per the previous month's reconciliation.

Recommendation:

We recommend the Accounting Manager agree such amounts each month to ensure the correctness of reconciliation detail. Any differences should be investigated and reconciled in a timely manner.

Management Response:

The Controller will verify the agreement between prior month's ending balance of fuel and oil inventory with the current month's beginning balance of fuel and oil inventory. Any discrepancies will be investigated thoroughly and promptly.

Fixed Assets

Finding:

We noted the following deficiencies and inaccuracies regarding fixed assets:

1. Certain items to be capitalized were incorrectly expensed during the year.
2. A formal capitalization policy has not been adopted and approved by the Board.
3. A vendor designed fixed asset software program is not being used. Currently, all fixed asset schedules are being maintained in excel which results in a cumbersome method of calculating and recording fixed asset additions, disposals and depreciation expense.

Recommendation:

We recommend a monthly review of all repairs and maintenance expense accounts be performed to determine that all items are being properly capitalized with any necessary reclassification entries made at that time. In addition, the board should adopt a formal capitalization policy consistent with FTA and City-Parish guidelines. Lastly, based on the large dollar amount of fixed assets maintained by the System; the client should purchase fixed asset software rather than using the current excel spreadsheet method.

Management Response:

A monthly review will be conducted by the Controller to verify that all items are being properly capitalized.

While the accounting software utilized by the System has a fixed asset module, it has been noted that the software does not work properly. A review of obtaining a fixed asset software package will be conducted to verify financial feasibility.

Payroll

Finding:

We noted that IRS Schedule 941's (Employer's Quarterly Federal Tax Return) are not regularly being reconciled to the general ledger balances. Also, the client was unable to locate the 2005 quarterly reports.

Recommendation:

We recommend the Accounting Manager perform a quarterly reconciliation of all quarterly 941's to general ledger payroll account balances. This reconciliation should be reviewed and approved by the CFO. Also, we recommend the client make a more stringent effort to retain records in an easily identifiable location.

Management Response:

The Controller will perform a quarterly reconciliation of all 941's to the general ledger payroll account balances. The records will be diligently retained.

Finding:

For one of the employees selected for testing, it was noted the incorrect pay rate was being used. The employee was being paid \$13.74 per hour when the correct rate was \$13.36 per hour resulting in an over payment of wages for the 2005 year of approximately \$430.

Recommendation:

We recommend a more stringent review of payments for employees be done to ensure correct pay rates are being used.

Management Response:

Department supervisors will conduct a monthly review of pay rates for their respective employees. Any discrepancies will be reported to the payroll department immediately so that corrective action can be taken.

PRIOR YEAR FINDINGS:

Bank Reconcillations

Finding:

The prior CPA noted in the prior year that bank reconciliations were not being prepared on an ongoing timely basis during the year. Monthly preparations of bank reconciliations and review thereof by the CFO play an important role in ensuring the accuracy of interim financial reports and detection of unauthorized transactions. The prior CPA recommended that bank accounts should be reconciled and reviewed on a monthly basis. The review should focus on any unusual items. Any such items should be investigated and fully resolved.

During the current year, we have noted that the general operating account is still not being reconciled on an ongoing timely basis. Furthermore, there was an unreconciled difference of approximately

\$23,000 on the December 31, 2005 general operating account bank reconciliation. Based on the reoccurrence and significance of this item; we have reported the finding as a reportable condition for the year ended December 31, 2005 in a separate report dated May 12, 2006.

Cash Disbursements

Finding:

The prior CPA noted that there was noncompliance with established procedures, or situations where internal controls could be enhanced relating to the following items:

1. The established policy of stamping the invoice with the posted stamp was missing on several invoices.
2. Purchase orders lacked dollar values.
3. Lack of approval of satisfactory receipt of goods on invoice/receiving report.
4. Lack of approval for payment by department supervisor.
5. Signature stamp was in custody of an unauthorized employee.

Recommendation:

The prior CPA recommended a more stringent effort be made to ensure that employees follow established procedures uniformly and consistently. All approvals should be documented on the purchase order/invoices and receiving reports. The use of signature stamps should be discontinued and the stamps destroyed.

Corrective Action Taken:

The internal policies and procedures were reviewed with all applicable employees to ensure that employees are aware of those procedures. In addition, the signature stamps are now located in the possession of that person and is locked up at all times, unless the stamp is in use by that employee. No other employee has keys to the locked location of the stamp other than the person whose signature is on the stamp. In our current year audit we did note a further finding in the cash disbursement area as previously mentioned in this report.

Inventory

Finding:

The prior CPA noted that the prices used in the valuation of inventory carried on the System's balance sheet are based upon an initially established price from the vendor which is updated periodically based upon the warehouse manager's cognizance of a price change.

Recommendation:

The prior CPA recommended that the valuation be based upon the most recent prices as reflected in recent invoices for the quantity on hand.

Corrective Action Taken:

Upon receipt of invoices, the inventory valuation price is changed to properly reflect the updated current cost of inventory.

Credit Cards

Finding:

The prior CPA noted that the System has 19 Fuelman credit cards authorized and 16 in use. The credit cards were provided to employees who drive System vehicles in the performance of their job duties. There was a concern due to a lack of independent review of the charges to the cards and the necessity of the number of these cards.

Recommendation:

The prior CPA recommended that Management consider reducing the number of cards, and implementing a procedure whereby each cardholder's transactions are reviewed independently.

Corrective Action Taken:

The employees with access to the credit cards in association with their job duties are now required to leave the cards with the maintenance department. Upon arrival at work, the employee is allowed to check out the credit card to use during his daily duties. Before departing from work, the employee is required to check in the credit card. When cards are not in an employee's possession, the cards are locked in the maintenance department. Also, invoices are reviewed monthly for any unusual activities.

System Vehicles

Finding:

The prior CPA noted that System vehicles were used by certain employees in the conduct of their job duties. These vehicles were driven home by those employees and therefore this personal benefit may be needed to be included as compensation in their W-2s.

Recommendation:

The prior CPA recommended that the System include an allowance for personal commuting miles in the employee's W-2 and consult with its legal counsel to ensure that the practice does not violate ethic statutes.

Corrective Action Taken:

Currently, the only employees allowed to drive system vehicles home at night are the four employees who are on call 24 hours a day (John Denman, Corey Brannon, Steve Rushing, and Reggie Jones). All other employees are not allowed to use the System vehicles to drive to and from work.

CATS adopted the City of Baton Rouge's policy in regards to the four employees who are allowed to drive the vehicles home. This policy states that the employees have included in their taxable wages a \$60 monthly allowance for the use of the vehicles.

Budget Management

Finding:

The prior CPA noted that certain cost were charged incorrectly to budgetary line items for planning and project administrations. The reimbursement request made for August and October 2004 incorrectly charged planning cost of \$4,480 and \$4,750, respectively to the project administration budgetary line item. Given matching requirements are different for these line items, the result was an over reimbursement of \$3,200 and \$3,500, respectively under the project administration and an under reimbursement of \$4,000 and \$4,400, respectively under the planning line item.

Recommendation:

The prior CPA recommended that all grant reimbursements requests be independently reviewed to ensure that all costs are charged to the appropriate line item.

Corrective Action Taken:

The Accounting Manager was subsequently trained and is now completing the reimbursement request for the grants. After he prepares the grant reimbursement request, the CFO is reviewing the documentation for accuracy including the classification of the expenses.

Information Systems Security

Finding:

The prior CPA noted that certain computerized security controls of the accounting systems are not functioning to their maximum capacities, leaving CATS vulnerable to unauthorized use or access to critical financial data. The areas for security enhancement include:

1. Passwords for networks should conform to ISC Standards.
2. Group policy should enforce timeouts after periods of inactivity.
3. Maintenance and review of file access logs.
4. Nightly backup tapes.
5. Disaster recovery plan.

Corrective Action Taken:

CATS' management has indicated that they have implemented policies and procedures to address these issues.

Recommendation

We recommend that CATS have a follow up IS audit to address the areas of concern listed in the previous report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the conditions described above is believed to be a material weakness.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the CFO and staff, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended for the use of management and the office of the Legislative Auditor, State of Louisiana, and should not be used for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hannia T. Bourgeois, LLP